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Scope and Dimensions of the Nonprofit Sector

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The nonprofit sector comprises a large and, by most measures, growing share of the U.S. economy. The sector is also extremely diverse. It includes religious congregations, universities, hospitals, museums, homeless shelters, civil rights groups, labor unions, political parties, and environmental organizations, among others. Nonprofits play a variety of social, economic, and political roles in society. They provide services as well as educate, advocate, and engage people in civic and social life. Given this diversity, conclusions about one type of nonprofit organization do not translate easily to other types. For example, large hospitals are complex organizations with a disproportionate share of the sector's assets, while other types of health and human service organizations tend to be small and close to community life. Memorial Sloan-Kettering Cancer Center had more than $1 billion in revenues in 2000, while Rainbows and Moonbeams, a facility for children with fetal alcohol syndrome, had revenues of less than $133,000. Educational organizations are also quite varied, ranging from Harvard University with close to $6 billion in revenues in 2000 to Treasure Island Christian School with less than $265,000.

Why try to explore the scope and dimensions of such a diverse nonprofit sector? For the same reasons that we measure the dimensions of the business and government sectors and compile data on national income, business profits, tax collection, and the costs of defense and social welfare. The nonprofit sector influences our lives in so many ways through its impact on the economy, on communities, and on us as citizens and individuals.

The scope and dimensions of nonprofits must be interpreted carefully because although the data become the basis for many decisions, they can easily be misconstrued. Public officials, for instance, are interested in whether nonprofit organizations are able to meet various public needs, as well as whether particular organizations use their resources to serve public or private interests. A common misperception—largely dispelled by the data—is that the nonprofit sector is mainly concerned with charity and depends upon donations and volunteers for most of its resources. In fact, many parts of this varied sector are not engaged in serving the poor, depend little or not at all on contributions, and pay wages, sometimes substantial, to individuals. The data reveal a vibrant sector, but not one solely concerned with social welfare and civic engagement.

This chapter provides an overview of the nonprofit sector, primarily from an organizational perspective, including information on organizational types, finances, and roles within the U.S. economy. Other chapters in this volume examine in much more detail particular aspects of the nonprofit sector, such as contributions and volunteers, as well as particular subsectors, such as health organizations.

Attempts to map and study the nonprofit sector are relatively new. The pioneering research of Burton Weisbrod (1977) for the Commission on Private Philanthropy and Public Needs (also known as the Filer Commission) is among the earliest systematic work. Chapters by Gabriel Rudney and Lester Salamon in the first edition of *The Nonprofit Sector: A Research Handbook* (Powell 1987), along with the comprehensive coverage of Virginia Hodgkinson and Murray Weitzman's *Nonprofit Almanac: Dimensions of the Independent Sector, 1992–1993* (1992), and Boris and Steuerle's *Nonprofits and Government* (1999), further developed, refined, and discussed measures of the nonprofit sector.

An accurate mapping of the nonprofit sector is limited by several factors. For instance:

- Estimates of the size and scope depend on extrapolations of data from multiple sources that use varied definitions and classifications. Limited information exists on organizations not subject to government filing requirements, and some organizations fail to file or file incomplete or erroneous information.[1]
- Separation of nonprofit organizations from other organizations in government statistics is difficult, especially for service industries.
- Government data on employment exclude most organizations with fewer than four employees.

Further development and improvement of basic data remains a priority for those concerned with understanding, monitoring, and influencing the future of the nonprofit sector.

DEFINING AND MEASURING THE NONPROFIT SECTOR: AN OVERVIEW

We define the nonprofit sector as those entities that are organized for public purposes, are self-governed, and do not distribute surplus revenues as profits. Nonprofit organizations are independent of government and business, although they may be closely related to both. The National Taxonomy of Exempt Entities (NTEE), the nonprofit classification system developed by the National Center for Charitable Statistics (NCCS) and used by the IRS, organizes nonprofits into the following major categories: arts, culture, and humanities; education; environment and animals; health; human services; international and foreign affairs; civic and public benefit (including philanthropic foundations); and religion.[2]

Nonprofits are only a sliver of the national organizational picture. Of the estimated 27.7 million formal organizations in the United States in 1998, 1.6 million (5.9 percent) were nonprofits (including religious congregations). Businesses make up approximately 94 percent of all entities, and government only 0.3 percent (Weitzman et al. 2002).

The U.S. tax code defines nonprofit organizations in terms of their tax status. They are a subset of those organizations exempted from federal income taxes by virtue of their public purposes.[3] Exempt organizations are additionally prohibited from distributing profits. The largest subset of exempt organizations—known as charitable organizations and described under section 501(c)(3) of the Internal Revenue Code—is composed of nonprofits permitted to receive tax-deductible contributions from individuals and corporations. To receive this deduction, they must be engaged in educational, religious, scientific, or other forms of charitable behavior; for this reason, they are sometimes referred to as "public benefit" organizations. Other nonprofits, such as social clubs and unions, are defined as nonprofits and may be exempt from taxes on the income they generate internally on their assets and sales, but they cannot receive tax-deductible charitable contributions.

Tax-exempt organizations that register and report information to the Internal Revenue Service (IRS) compose the primary universe for financial trend data on the U.S. nonprofit sector. The IRS is responsible for granting tax-exempt status, collecting basic information, and monitoring tax-exempt activities.[4] The IRS requires nonprofit organizations with more than $5,000 in annual gross receipts to register. Organizations with more than $25,000 in gross receipts must complete an annual report on the IRS Form 990 that includes, for example, details on revenues, expenditures, and assets; descriptions of programs; names of board members; and compensation of top staff members. Most of the information on Form 990 must be disclosed to the public.

Religious congregations and related religious organizations are generally considered an integral part of the nonprofit sector. At present there are an estimated 330,350 congregations, 246,562 of which do not register with the IRS.[5] Congregations are granted automatic tax-exempt and charitable status, which means both that they do not pay taxes on their net income (although taxes are due on employees' wages) and that they are eligible to receive tax-deductible contributions. Their automatic status derives from a longstanding tradition of separation of church and state, and does not rely upon other factors such as whether they are member-serving or charitable. Congregations are not required to register with or report to the IRS, although some do choose to register and a few even file an annual Form 990.[6] Most data on religious congregations, therefore, must be estimated from sources other than the IRS.[7]

In 2000, approximately 1.36 million tax-exempt organizations registered with the IRS (table 3.1). This excludes religious congregations that do not register, which would swell the total number of nonprofit organizations in 2000 to more than 1.6 million (table 3.2). Registered charities (501(c)(3) charitable organizations), which numbered 819,000 in 2000, have become the largest group of nonprofit organizations over the past decade.[8] While 79,000 organizations were classified as private foundations in 2000, grantmaking foundations numbered less than 57,000 in 2000, according to the Foundation Center (table 3.3).[9]

Many nonprofit organizations, both informal and incorporated, do not register with the IRS and are not reflected in the statistics. Some should register but do not. Others fall below the minimum requirement of $5,000 in annual gross receipts. Yet they could be considered part of the nonprofit sector and civil society. Little systematic information exists for the multitude of small self-help, civic, and social groups. They are generally created and run by members and volunteers, and rarely have significant budgets. Researchers such as David Horton Smith estimate that these organizations number in the many millions and account for perhaps as much as 90 percent of nonprofit entities (Colwell 1997; Smith 2000).

The nonprofit sector is in constant flux, with new organi-

TABLE 3.1. REGISTERED TAX-EXEMPT ENTITIES IN THE UNITED STATES, 1989 AND 2000

Tax code Section	Type of tax-exempt organization	Number of organizations		Finances of organizations in 2000 BMF (in million $)	
		1989	2000	Income	Assets
Total[a]		992,537	1,355,894	1,391,284	2,185,807
501(c)(1)	Corporations organized under act of Congress	9	20	16	221
501(c)(2)	Titleholding corporations	6,090	7,009	3,143	14,586
501(c)(3)	Religious, charitable, etc.	464,138	819,008	997,022	1,573,635
501(c)(4)	Social welfare	141,238	137,037	68,139	65,782
501(c)(5)	Labor, agriculture organizations	72,689	63,456	23,247	22,418
501(c)(6)	Business leagues	63,951	82,246	31,508	39,221
501(c)(7)	Social and recreational clubs	61,455	67,246	10,437	15,013
501(c)(8)	Fraternal beneficiary societies	99,621	81,980	14,090	65,098
501(c)(9)	Voluntary employees' beneficiary societies	13,228	13,595	173,796	109,516
501(c)(10)	Domestic fraternal beneficiary societies	18,432	23,487	1,162	2,579
501(c)(11)	Teachers' retirement funds	11	15	936	1,431
501(c)(12)	Benevolent life insurance associations	5,783	6,489	26,672	58,450
501(c)(13)	Cemetery companies	8,341	10,132	3,156	7,065
501(c)(14)	State-chartered credit unions	6,438	4,320	15,526	171,096
501(c)(15)	Mutual insurance companies	1,118	1,342	1,824	5,166
501(c)(16)	Corporations to finance crop operations	17	22	28	355
501(c)(17)	Supplemental unemployment benefit trusts	674	501	536	439
501(c)(18)	Employee-funded pension trusts	8	2	1,332	1,748
501(c)(19)	War veterans' organizations	26,495	35,249	2,297	2,315
501(c)(20)	Legal service organizations[b]	200	—	—	—
501(c)(21)	Black lung trusts	22	28	0	0
501(c)(23)	Veterans associations founded prior to 1880	—	2	313	1,902
501(c)(24)	Trusts described in section 4049 of ERISA[c]	—	1	0	0
501(c)(25)	Holding companies for pensions	—	1,192	5,147	23,082
501(c)(26)	State-sponsored high-risk health insurance organizations	—	9	—	—
501(c)(27)	State-sponsored workers' compensation reinsurance organizations	—	7	—	—
501(d)	Religious and apostolic organizations	94	127	—	—
501(e)	Cooperative service organizations	79	41	—	—
501(f)	Cooperatives operating educational organizations	1	1	—	—
521	Farmers' cooperatives	2,405	1,330	10,959	4,689

Source: Numbers of organizations are reported in the IRS *Data Book,* Publication 55B, and internal finances are reported from the May 2000 IRS Business Master File.

Note: Fewer organizations are contained in the Business Master File than are reported in the *Data Book*. Financial records are for the most recent reporting year, circa 1999.

[a] Not all section 501(c)(3) organizations are included because certain organizations, such as congregations, integrated auxiliaries, subordinate units, and conventions or associations of churches, need not apply for recognition of exemption unless they desire a ruling.

[b] The IRS no longer categorizes organizations as 501(c)(20). Organizations with this former ruling have reapplied for alternate rulings.

[c] ERISA: Employee Retirement Income Security Act.

zations forming, some growing, others declining, and many dying (Galaskiewicz and Bielefeld 1998; Twombly 2000). Defunct organizations often fail to notify the IRS, while new organizations (particularly small ones) may not register or file with the IRS or state authorities for several years. Some organizations may never reach the threshold of $25,000 in revenues (annual gross receipts) that triggers required filing of Form 990, or they may reach the threshold one year and fall below it the next year. Still others, for whatever reason, neglect to register or file with the IRS. Several studies reveal the extent to which the IRS files at any point in time lack returns from nonprofits that should have filed (Bielefeld 2000; Dale 1993; Grønbjerg 1989; Haycock 1992). Related studies begin to explore the scope of the broad array of community organizations in different regions (Grønbjerg and Paarlberg 2001a).

DETAILS ON NUMBERS AND TYPES OF TAX-EXEMPT ORGANIZATIONS

Organizations eligible to receive tax-deductible contributions (that is, those registered as 501(c)(3) organizations), including religious congregations, number more than one million and represent approximately two-thirds of all tax-exempt nonprofits. Much of our analysis uses detailed information on tax-exempt organizations derived from Form 990. These data are available to the public and made accessible to researchers through the NCCS (Lampkin and Boris 2001).[10]

Tax-exempt organizations come in all shapes and sizes and serve public purposes in diverse ways. They include, for example, large national organizations like the Metropolitan Museum of Art, the National Audubon Society, and the Boy Scouts of America. They also include small local groups

TABLE 3.2. NUMBER OF TAX-EXEMPT NONPROFIT ORGANIZATIONS, 1989 AND 2000

Private nonprofit organizations by IRS reporting status	1989 Number (in thousands)	1989 Percent of total number (%)	2000 Number (in thousands)	2000 Percent of total number (%)	Change from 1989 to 2000 (%)
Total	1,262	100	1,603	100	27
Number of religious congregations not registered with the IRS[a]	269	21	247	15	–8
Nonprofits registered with the IRS[b]	993	79	1,356	85	37
Registered as other than 501(c)(3) or 501(c)(4) organizations	388	31	400	25	3
Registered as 501(c)(4) social welfare organizations	141	11	137	9	−3
Registered as 501(c)(3) charitable organizations[c]	464	37	819	49	77
Private foundations	42	3	79	5	87
Total registered public charities	422	33	741	46	75
Excluded organizations (mainly registered but not reporting on IRS Form 990[d])	285	23	492	31	72
Reporting public charities[e]	137	11	250	16	83
Operating	124	10	225	14	81
Supporting	13	1	25	2	95

Sources: IRS Return Transaction File, 1990–2000, and May 2000 IRS Business Master File as adjusted by the National Center for Charitable Statistics; Stevenson et al. 1997; *Nonprofit Almanac, 1996–1997* as updated by Independent Sector, 1998; *2002 Data Book,* Publication 55B.

[a] Hodgkinson et al. (1992) estimates the number of congregations as 351,000 in 1989. In 2000, Independent Sector estimates 330,350 religious congregations. The figure in the table above was adjusted to exclude the approximately 83.7 thousand religious congregations registered and counted as Section 501(c)(3) charitable organizations in 2000, and the estimated 82,000 that registered in 1989. These organizations do not generally file tax Form 990.

[b] For definitions of all groups see appendix.

[c] Includes public charities and private foundations. All section 501(c)(3) entities are not included because certain organizations, including congregations and conventions or associations of churches, need not apply to the IRS for recognition of their 501(c)(3) status unless they desire a ruling.

[d] Includes organizations not reporting on Form 990, those reporting with gross receipts below $25,000, and foreign/governmental organizations. Also in this category are mutual benefit organizations (category Y of the NTEE-CC classification system) that register under 501(c)(3). (Most mutual benefit organizations register under other sections of the tax code.)

[e] Governmental, foreign, and mutual benefit 501(c)(3) organizations (representing less than 0.4 percent of reporting public charities) are excluded from reporting public charities for this analysis.

like the Helen Tyson Middle School PTA in Springdale, Arkansas; the Tremont String Quartet in Geneseo, New York; Senior Citizens Services of Morrisania in the Bronx; and Save Our Children of Pulaski County, Arkansas.

The remaining one-third of nonprofit organizations (not eligible for tax-deductible charitable donations) include the following:

- social welfare organizations (501(c)(4))—for example, such well-known advocates as the American Civil Liberties Union and the National Rifle Association
- business leagues (501(c)(6))—for example, the Chamber of Commerce
- social and recreation clubs (501(c)(7))—for example, the local private golf club
- state-chartered credit unions, farmers' cooperatives, and others detailed in table 3.1

In many cases, these organizations are eligible for tax exemption because they are cooperative or social in nature, and because they share benefits among members rather than providing profits for shareholders. Some serve public purposes, but they do so through political or electoral activities that are not permissible for groups eligible to receive tax-deductible contributions.[11]

Figure 3.1 shows both the significant scope of religious congregations in this country and the general growth in nonprofit organizations from 1989 to 2000. All nonprofit organizations (including religious congregations) increased by about a quarter, from 1.3 million to more than 1.6 million. Most of this growth was due to the increase in the number of registered charities. They rose by 76 percent, from 464,138 to 819,008, and increased in scope from composing less than half of all nonprofits in 1989 to more than 60 percent by 2000. The number of congregations decreased by about 6 percent, while the number of social welfare organizations

TABLE 3.3. NUMBER, GIVING, ASSETS, AND GIFTS RECEIVED OF GRANT-MAKING FOUNDATIONS

Type of foundation[a]		1989	2000
All foundations	No. of Foundations	31,990	56,582
	Total Giving	$7,911	$27,563
	Total Assets	$137,538	$495,622
	Gifts Received	$5,522	$27,614
Independent	No. of Foundations	28,669	50,532
	Total Giving	$5,992	$21,346
	Total Assets	$117,941	$418,286
	Gifts Received	$3,668	$19,156
Corporate	No. of Foundations	1,587	2,018
	Total Giving	$1,366	$2,985
	Total Assets	$5,727	$15,899
	Gifts Received	$1,112	$2,902
Community[b]	No. of Foundations	282	560
	Total Giving	$427	$2,166
	Total Assets	$6,002	$30,464
	Gifts Received	$554	$3,829
Operating	No. of Foundations	1,452	3,472
	Total Giving	$125	$1,066
	Total Assets	$7,865	$30,973
	Gifts Received	$189	$1,727

Sources: 1989 data are from Renz 1991; 2000 data are from Lawrence, Atienza, and Marino 2003.
Note: Dollars in millions, not adjusted for inflation.
[a] Excludes foundations that do not make grants, including some operating foundations and organizations that are reclassified as foundations because they fail to qualify as public charities.
[b] Technically public charities.

declined by almost 3 percent. Other types of nonprofits showed modest growth of about 3 percent.

501(c)(3) versus 501(c)(4)

Much of the research on nonprofit organizations to date is based on reports to the IRS filed by public charities and private foundations classified as 501(c)(3) organizations. One reason for this focus is practical—the availability of data. Another, however, is that special attention is often paid to the charitable activities of organizations eligible for tax-deductible contributions—essentially the organizations in the nonprofit sector to whom the largest tax subsidy is given. Although 501(c)(3) organizations are allowed to do legislative lobbying, there are a variety of limits, mainly designed to ensure that charitable contributions are used primarily for charitable, rather than political, purposes.

The 501(c)(4) category contains the second largest number of nonprofit organizations. These 137,000 “social welfare” organizations are sometimes identified as public interest advocacy organizations because they are permitted to do unlimited lobbying. But the label can be misleading, as it applies to only some of the groups. Social welfare organizations include environmental, civil rights, and social action groups that do lobby. Examples include the Association for the Advancement of Retired Persons, the Sierra Club, the National Organization for Women, and the National Rifle Association. However, many other 501(c)(4) organizations, such as the Rotary Club, the Lions Club, parent-teacher associations, the Georgia Amateur Wrestling Association, and English First, are not generally considered public interest lobbying organizations. This category includes a mixture of seemingly unrelated organizations that requires further analysis (Krehely and Golladay 2001).

Social welfare organizations sometimes form as affiliated or lobbying arms of parent charitable organizations. Such organizations as Bread for the World and Planned Parenthood create both 501(c)(3) and 501(c)(4) organizations.[12] The dual structure allows these groups to both be politically active and receive charitable donations. When incorporated separately, however, the count of nonprofit organizations increases. Recent research is beginning to document the complex organizational structures that characterize politically active nonprofits (Boris and Krehely 2002; Reid and Kerlin 2002).

Size Estimates Vary

Estimates of the size of the nonprofit sector vary depending on which organizations are included. The two most comprehensive sources deal in depth with only selected parts of the nonprofit universe. The *Nonprofit Almanac,* compiled by Independent Sector and the NCCS, combines charities, religious congregations, and social welfare organizations to create a group called the “independent sector” (Weitzman et al. 2002). The authors adjust the IRS data by omitting “out of scope” organizations such as (1) foreign organizations that are not based in the United States, (2) governmental entities that have registered with the IRS, and (3) organizations such as foundations directly connected with and supporting pub-

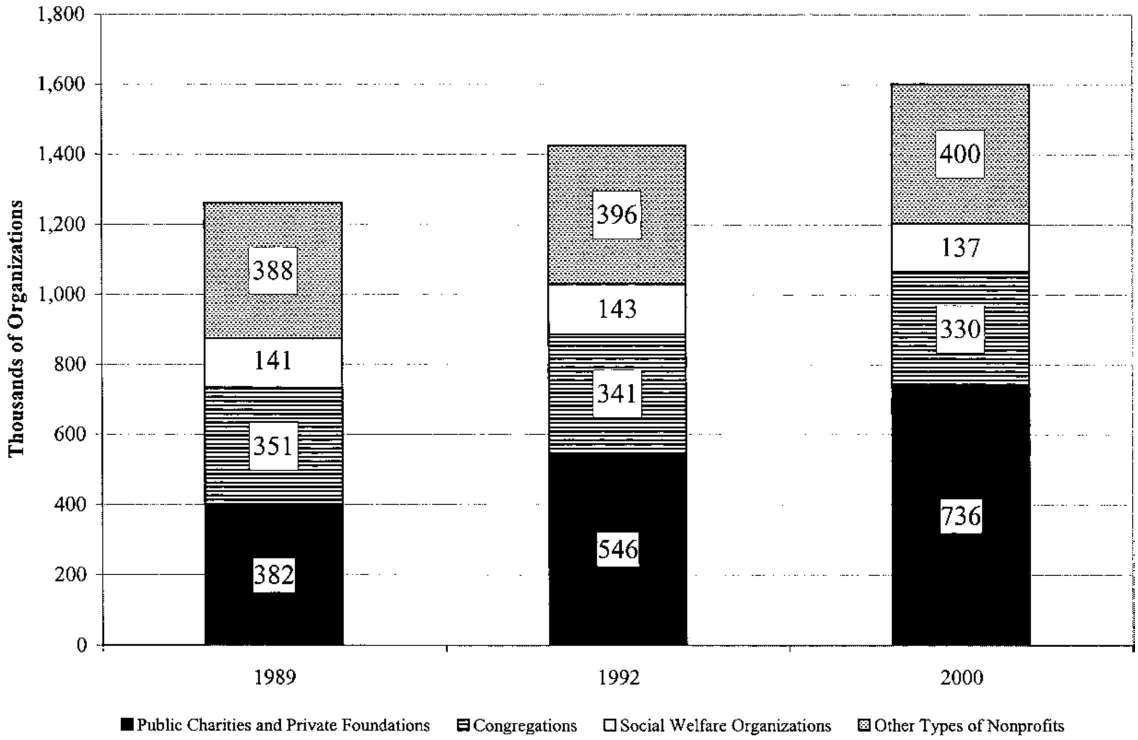


FIGURE 3.1. ESTIMATED DISTRIBUTION OF ORGANIZATIONS IN THE TAX-EXEMPT UNIVERSE
Notes: "Public Charities and Private Foundations" exclude government, foreign, and mutual benefit organizations; see table 3.2, note e. "Congregations" include both registered and nonregistered congregations.
Sources: The Urban Institute, NCCS Core Files, 1990, 1993, 2001; Stevenson et al. 1997; Independent Sector 2001; Hodgkinson et al. 1992.

lic universities. Further, the authors rely on non-IRS data to estimate the number of religious congregations. This independent sector is designed to capture the public-serving, autonomous, and voluntary aspects of the nonprofit sector.

In *America's Nonprofit Sector: A Primer,* 2nd ed. (1999), Lester Salamon divides the nonprofit sector into two groups, public-serving organizations (funders, churches, service providers, action agencies) and member-serving organizations (social and fraternal, business and professional, labor unions, mutual benefit and cooperatives, political). Salamon combines data from the IRS with estimates of religious congregations that do not register with the IRS, and then he adjusts upward by 25 percent, based on survey research he conducted in the 1980s, to account for organizations that do not report to the IRS. His estimates of the size and economic impact of the nonprofit sector are higher than the numbers reported in the *Nonprofit Almanac* or in this chapter.

It is unclear whether Salamon's upward adjustment by 25 percent is appropriate. Several studies do document an undercount of organizations in the IRS files (Bielefeld 2000; Grønbjerg 1989; Haycock 1992; Salamon 1992; Smith 1997; De Vita, Manjarrez, and Twombly 1999). In a study of New York City, however, researchers found almost equal numbers of nonprofits that did not appear in the files and of nonprofits that did appear in the files but could not be found or contacted (Haycock 1992). This suggests both the rapid creation and demise of organizations not captured in the IRS data; proposed legislation would tackle this issue in part by requiring periodic re-registration. A study of Washington, DC, nonprofits found an additional 8 percent of organizations not in the IRS files, but in certain neighborhoods, the researchers found many fewer organizations than appeared in the IRS files (De Vita, Manjarrez, and Twombly 1999).

Studies undertaken by Kirsten Grønbjerg provide more fine-grained estimates of the various types of nonprofits in one state. For selected areas of Indiana, Grønbjerg and colleagues performed exhaustive fieldwork to identify nonprofit organizations and compare those identified with local, state, and federal sources. The IRS files accounted for the greatest number of nonprofits (60 percent), but the researchers found that many organizations are not on IRS or state registration lists even though significant numbers of these organizations appear to fall within federal and state reporting requirements. Grønbjerg's study is still under way, but based on the work so far, Grønbjerg estimates that the total number of nonprofits could be doubled, to perhaps 2.5 million (Grønbjerg 2002:1758).[13]

When completed, the results of the Grønbjerg study are likely to suggest appropriate ways to adjust the IRS data to account for those nonprofits that do not register or file re-

ports even though they are required to do so. The study will also shed light on those small incorporated and unincorporated organizations that are not required to register. Even unregistered nonprofits with modest resources are important for studies of local social capital and community building.

The IRS data on nonprofits have gradually become more accurate and comprehensive (Froelich, Knoepfle, and Pollak 2000) In particular, as the annual Form 990 and 990PF financial reports become more visible to the public through the Web sites of the NCCS, GuideStar, and the Foundation Center, it seems likely that more nonprofits will complete Form 990 in a careful and timely manner.[14] Starting in 2004, electronic filing of Form 990 became available and is expected to ease the burden of reporting and to provide more accurate data in a shorter time frame, for both regulatory and research purposes.[15] The IRS data sources on nonprofits are summarized in the appendix.

THE FINANCES OF REPORTING PUBLIC CHARITIES

Form 990 provides important information on the finances of nonprofit organizations, but it is easier to gather in-depth information about the finances of public charities and private foundations because their information has been digitized and included in the NCCS, GuideStar, and Foundation Center databases. Figure 3.2 shows trends in the finances of 250,000 reporting public charities—that is, those 501(c)(3) organizations, excluding private foundations and most religious groups—that filed a Form 990 with the IRS. From 1989 to 2000, total revenue and expenses of reporting public charities (in real dollars) stayed in roughly similar proportions, although revenues grew slightly faster in the last five years of the period, reflecting the economy. Revenues exceeded expenses usually by about 8 percent.

Expenses

Organizations with over $10 million in annual expenses represent only 3.9 percent of reporting public charities, but they are responsible for over 80 percent of total expenses. At the other extreme, organizations with under $500,000 in expenses represent almost 75 percent of reporting public charities, yet they account for less than 3 percent of aggregate expenses. As figure 3.3 shows, the expenses of reporting charities tend to be highly concentrated, which masks the vitality of this cast of thousands. If we were to include organizations with less than $25,000 in gross receipts in our calculations, the percentage of public charities with less than $100,000 in expenses would greatly exceed 40.7 percent.[16] A similar concentration of resources holds for private foundations (Ganguly and Gluck 2001).

Health organizations, including hospitals, clinics, and med-

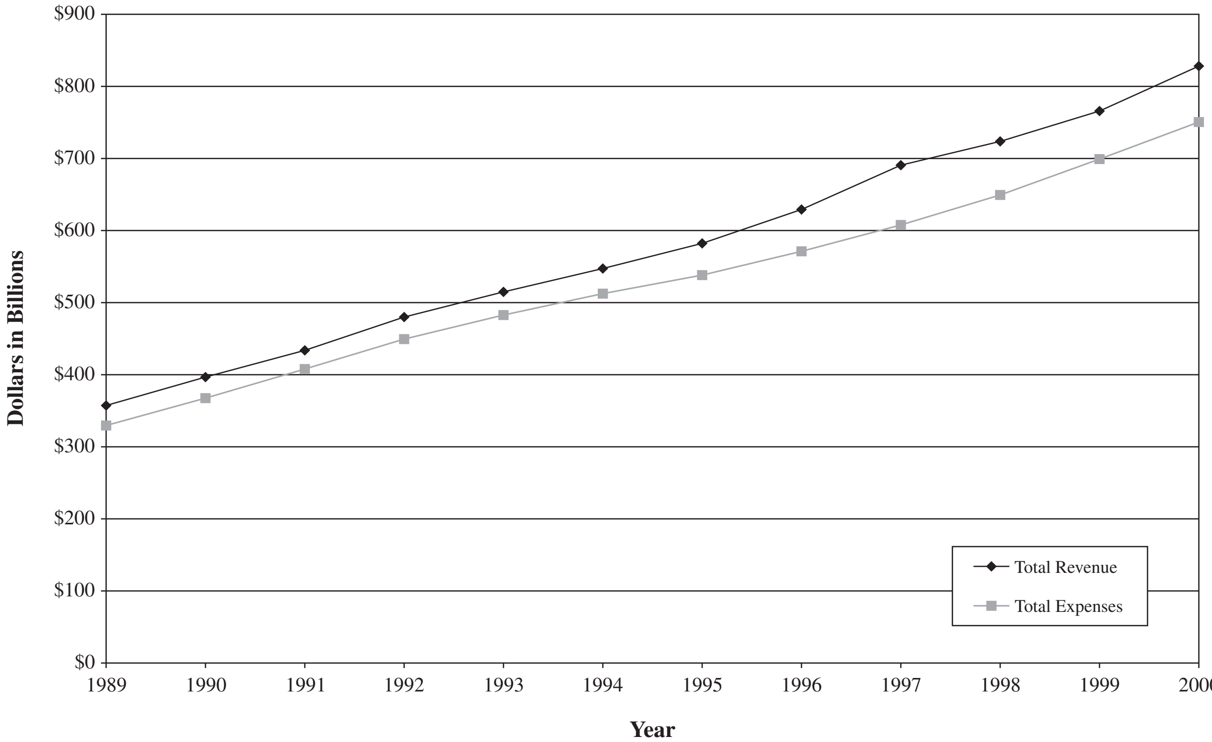


FIGURE 3.2. TRENDS IN REVENUES AND EXPENSES OF REPORTING PUBLIC CHARITIES, CIRCA 1989–2000 (NOT ADJUSTED FOR INFLATION)
Source: The Urban Institute, NCCS Core Files, 1990–2001.

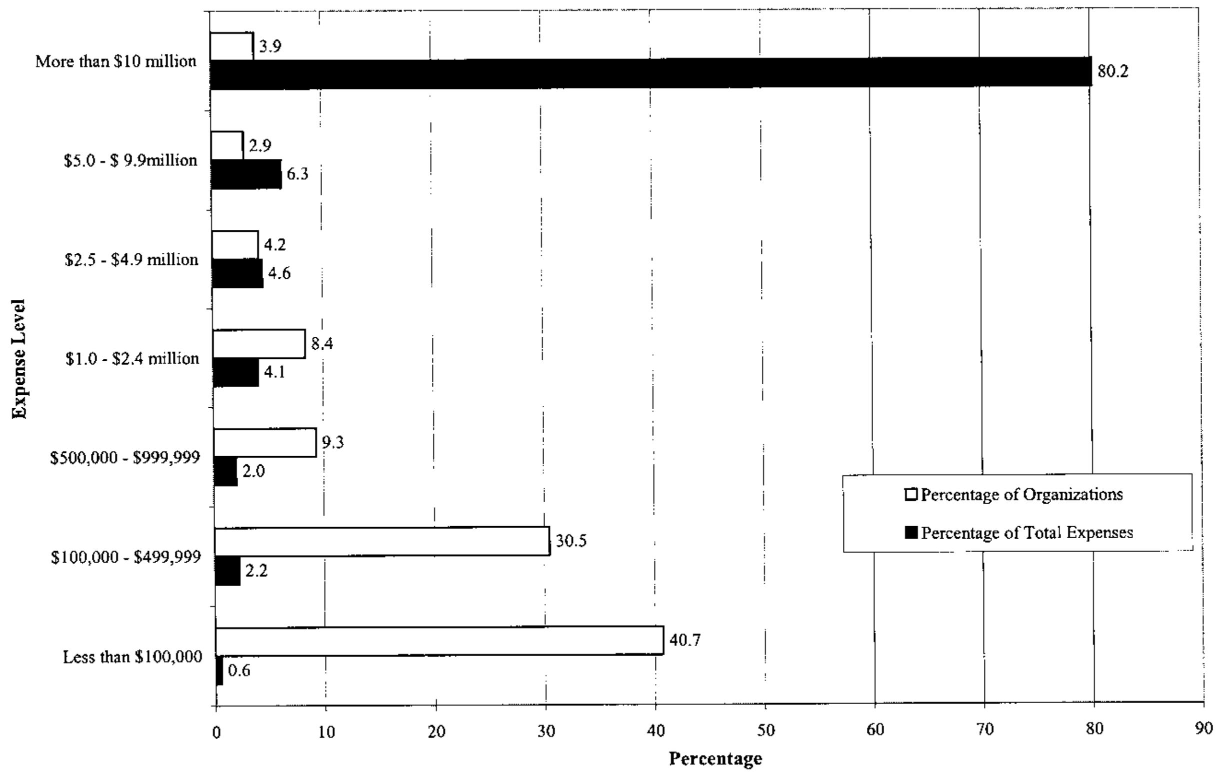


FIGURE 3.3. PERCENTAGE OF REPORTING PUBLIC CHARITIES AND TOTAL EXPENSES BY EXPENSE LEVEL, 2000
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

ical research organizations, clearly dominate the finances of public charities. They generate almost 60 percent of all expenses of reporting public charities, and hospitals alone generate almost 75 percent of expenses in the health area. Figure 3.4 provides a breakdown of expenses by type of organization. Arts, environmental, human service, societal benefit, or religious organizations that do file tend to be smaller, and so have lower average expenses than, for example, health and educational institutions. Of course, averages are only averages, and there is wide variation within categories and subcategories. The Nature Conservancy, the Art Institute of Chicago, the Save the Children Foundation, and the American Red Cross, for instance, are all large organizations with significant expenses and revenues. And although most religious congregations tend to be modest in size and have lower expenses, there are many substantial religious organizations (Chaves 2002).

Employment is a major expense for nonprofits because many are service organizations that rely heavily on skilled labor. The nonprofit sector's share of total U.S. paid employment was approximately 12 percent in 1998 (Weitzman et al. 2002). Among reporting public charities in 1998, about 46 percent of operating expenses were for salaries and wages. As they grow in size, organizations tend to rely increasingly on staff rather than on volunteers.

Despite a few publicized cases of high executive salaries among nonprofits, the median annual salary for nonprofit chief executives in 1998 was $42,000. But differences in chief executive salaries illustrate the variation among types and sizes of nonprofits. Hospitals and higher educational institutions, for example, tend to report the highest average chief executive salaries at $169,000 and $114,000, respectively (Twombly and Gantz 2001). Generally, the larger the organization's revenues, the higher the chief executive's salary (Preston 2002). Some chief executives, however, receive compensation from more than one affiliated organization, and a few receive compensation through intermediaries (such as consultant organizations), which keeps their total compensation from showing up on any one tax return.

Fundraising and administrative expenses also vary by type and size of organization. Studies have combined IRS data with survey research to delve into this difficult-to-measure area. One 2001 finding is that, on average, the overhead costs of smaller organizations tend to make up a higher percentage of their total costs (Hager, Pollak, and Rooney 2001). This trend varies and is more pronounced in certain types of nonprofits than others, but it certainly points toward a need for caution in using simplistic cost ratios as measures of efficiency. For instance, most organizations start out small, so high cost ratios in one year may not reflect the cost ratio for those same organizations over their lifetimes.

Significant research has focused on the geographical distribution of charities and how expenses vary by region (Bielefeld 2000; Haycock 1992; Stevenson et al. 1997; De

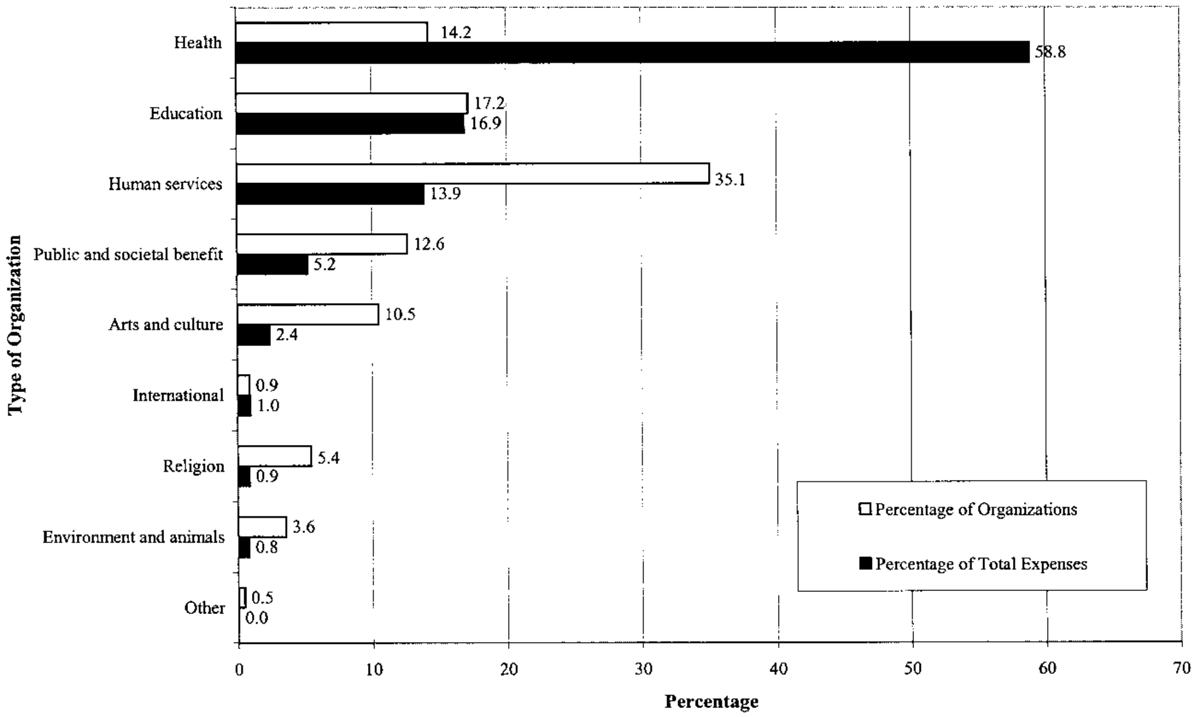


FIGURE 3.4. PERCENTAGE OF REPORTING PUBLIC CHARITIES AND TOTAL EXPENSES BY ORGANIZATIONAL TYPE, 2000
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

Vita et al. 2004). Figure 3.5 displays the per capita expenses of reporting public charities by state. The highest expense levels are generally in New England and northern central states, where per capita expenses of charities are often more than $3,000. In southern and less-populous western states, expenses of charities are usually less than $2,000 per capita. Again, one must be careful with interpretation. Large national and international organizations with corresponding expenses may be more likely to locate their headquarters in those coastal states where prices tend to be higher. Some of this discrepancy may also reflect simply the length of time a state has been populated, reliance on congregations for human services in the South, or the concentration of large private universities in the Northeast. The chapter by Peter Hall in this volume has an in-depth discussion of regional variations in the nonprofit sector.

There is also considerable variation in the numbers and types of nonprofit organizations in various states, cities, and even neighborhoods (Stevenson et al. 1997; De Vita, Manjarrez, and Twombly 1999; Grønbjerg and Paarlberg 2001b; De Vita and Twombly 2002).[17] These variations in local nonprofit infrastructure have implications for both policy and practice that are just beginning to be recognized and explored. Charities are often located downtown and in better-off neighborhoods (De Vita, Manjarrez, and Twombly 1999). Lack of locally based nonprofits could limit access to services, amenities, and job opportunities for residents in poorer neighborhoods.

Revenues

While nonprofit health organizations rely heavily on fees, many arts organizations rely on private donations. Figure 3.6 demonstrates the various sources of revenues—fees for goods and services, private contributions, government grants, investment income, and others—for the major categories of reporting public charities. Fees also include income from other government and private contracts. Private contributions, which include individual donations and grants from foundations and corporations, are the single most important source of revenues for arts, environment and animals, public benefit, religious, and international organizations. For all major categories of organizations, investment income composes only between 2 percent and 7 percent of revenues.[18]

The total amount of support to charities from government sources is difficult to measure accurately, as it flows to the organizations in many different ways, including governmental transfers, vouchers, tax credits, and access to tax-exempt bonds. Health organizations are heavily dependent upon government-funded Medicare and Medicaid paid out as fees for services. Also, government educational assistance can either flow directly to higher educational institutions or be distributed as grants or subsidies to individuals who then pay the fees to the institutions.

Although government grants totaled $67.0 billion (8 percent of $823.4 billion in revenues for the public charities that reported to the IRS in 2000), government funds gener-

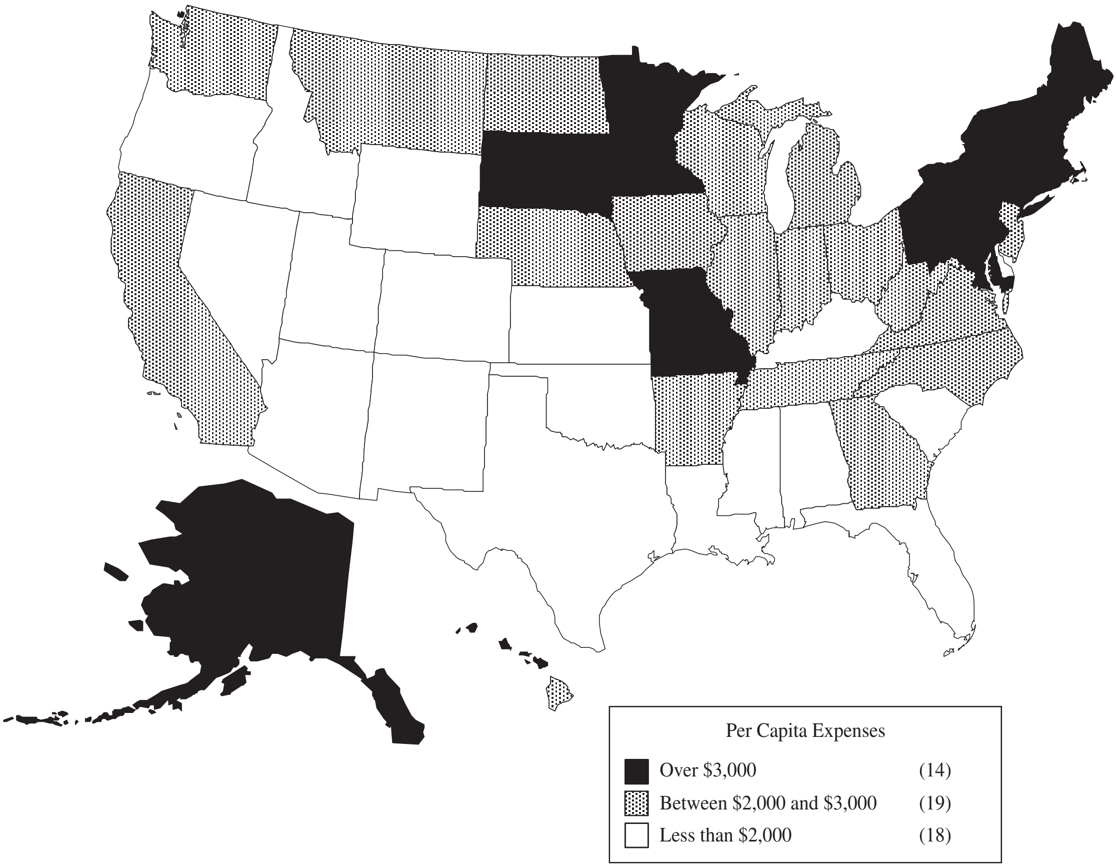


FIGURE 3.5. PER CAPITA EXPENSES OF REPORTING PUBLIC CHARITIES, 2000
Sources: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000; U.S. Census Bureau, Census 2000, Summary File 1.

ate considerably more revenues for this sector.[19] Grants only capture direct government support, which is important for human service, international, and public benefit organizations. Program service revenues totaled $539.2 billion, or 65 percent of nonprofit revenues. The distinction between government grants and government fees reported along with other program service fees is somewhat arbitrary. A grant to provide a service to the public, for example, should be reported under "Government contributions (grants)," while a contract to provide a service or good to the government itself should be reported under "Program service revenue." The reliability of reporting on this breakdown of grants and fees is open to question because often the nonprofits cannot identify the source of particular payments.

The *Nonprofit Almanac* and *America's Nonprofit Sector* both attempt to divide fee income into government and private sources. They also estimate total government revenues from grants and contracts for slightly different subsets of the nonprofit universes. In the *New Nonprofit Almanac and Desktop Reference,* the government sector is estimated to have provided 31.3 percent ($207.8 billion) of the total $664.8 billion in revenues for the independent sector in 1997—a proportion that increased from 26.6 percent in 1977 (Weitzman et al. 2002). In *America's Nonprofit Sector,* government revenues are estimated at 36 percent ($185.4 billion) of $515 billion in total revenues in 1996 (Salamon 1999). Both are reasonable estimates and quite close, despite the somewhat different groups and methods used. Until there are better ways to track nonprofit program fees back to government sources (which can be from direct and indirect federal, state, and local payments), estimates will differ moderately in size. For public policy purposes, the information needs to be better documented.

The fees received by the health sector, largely Medicare and Medicaid payments, account for 85 percent ($385.0 billion) of the $450.7 billion in revenues for health-related nonprofits and almost half of the total revenue of all reporting nonprofits ($823.4 billion). While the amounts of government fee revenues paid to nonprofits outside of health-related payments are much smaller, those dollars are more difficult to track.

FOLLOW THE MONEY

Revenues and expenses can be crude measures. For instance, a government grant may be given to a public charity

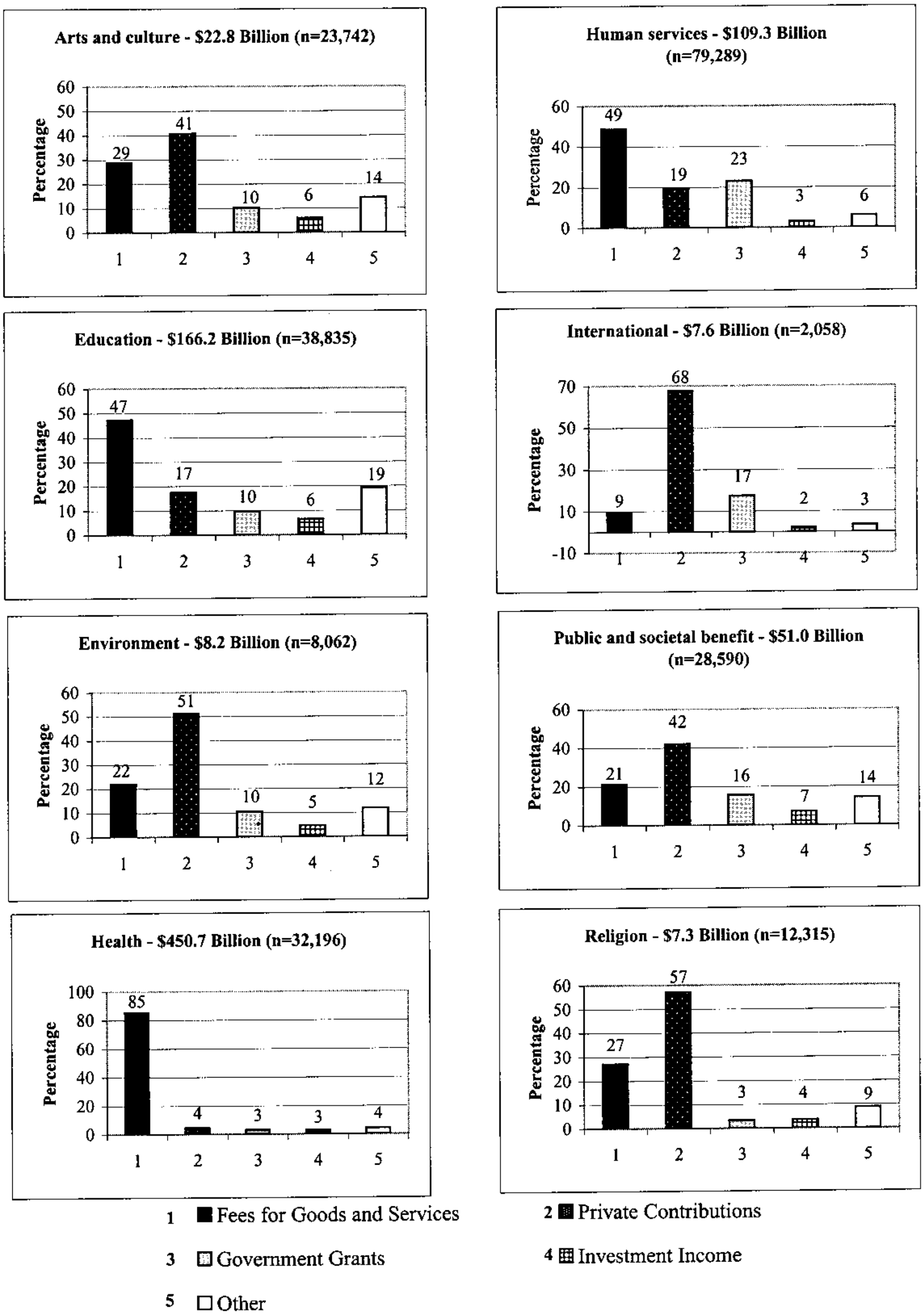


FIGURE 3.6. SOURCES OF REVENUE FOR REPORTING PUBLIC CHARITIES, 2000
Note: Due to rounding, the totals may not equal 100 percent.
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

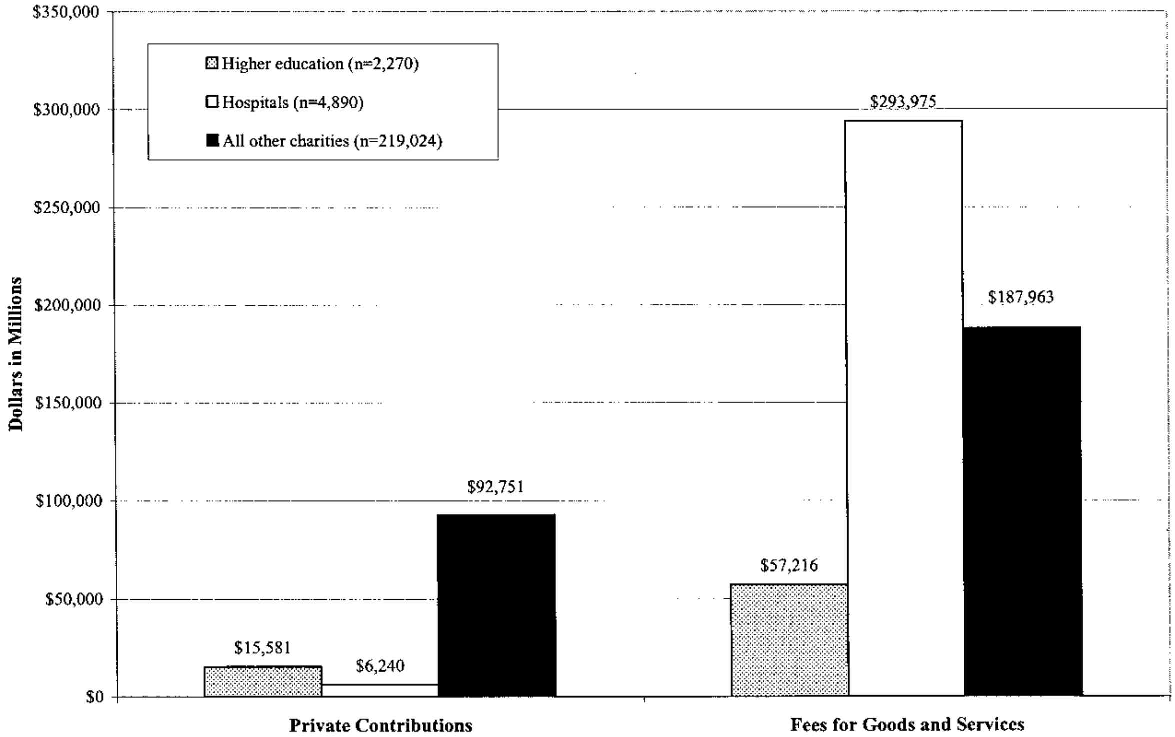


FIGURE 3.7. PRIVATE CONTRIBUTIONS AND FEES FOR GOODS AND SERVICES FOR HIGHER EDUCATION, HOSPITALS, AND ALL OTHER CHARITIES, 2000
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

that subcontracts through a second charity to have work performed. In this case, the source of funds is the U.S. taxpayer, and most work takes place in the second charity. The first charity may have significant additional revenues and expenses because of this series of transactions but obtain little income from its own donors or internal sources.[20]

Although private charitable contributions are not the primary source of revenues for nonprofits overall, they are major sources of support for five subsectors, including arts (41 percent), environment (51 percent), international (68 percent), public societal benefit (42 percent), and religious (57 percent). Charitable contributions strongly define the character of many nonprofit organizations and reflect the willingness of individuals voluntarily to forgo their own consumption for the good of others. Figure 3.7 breaks down the health and education categories to show how higher education and hospitals, the two dominant sets of organizations in terms of finances and employment, differ from the rest of nonprofits in their limited reliance on private contributions (see also figure 3.6).

Individual lifetime giving is much larger than corporate and bequest giving.[21] Figure 3.8 breaks down contributions from those three major sources as a percentage of gross domestic product (GDP). From 1970 to 1998, combined giving was relatively stable at close to 2 percent of GDP with some modest exceptions. During the 1980s, levels of giving were somewhat higher than in the 1970s, and in the last years of the century, when economic growth rates rose, the levels of giving increased even further. A small spike in giving seems to have occurred around the time of the passage of the Tax Reform Act of 1986, which lowered tax rates and effectively reduced tax subsidies for giving. Individuals made some contributions early at the higher subsidy rate. In the 1980s, corporate giving increased somewhat as a proportion of GDP, but overall it remained low.

Bequests declined after 1972 and did not vary much from then on. While charitable bequests are important to a number of wealthy people, there is little tax incentive for most people to give through their estates, since most estates are exempt from taxation. Giving does, however, go up with wealth—indeed, the very presence of wealth in an estate indicates that consumption, for either oneself or one's posterity, is not the only motivating force in an individual's life. Legislation passed in 2001 reduced the estate tax and would potentially eliminate it after 2010. This change would both reduce tax incentives to give at death and increase the wealth from which heirs could later give.

Individuals also make gifts of money and assets to foundations, which the foundations then invest and use to generate revenue to make grants. Ken Prewitt's chapter in this volume examines foundations in depth, so we touch on them here only briefly. Our goal is to see how their scope and dimensions fit within the broader nonprofit universe. Table 3.3 provides the number of foundations along with the amounts

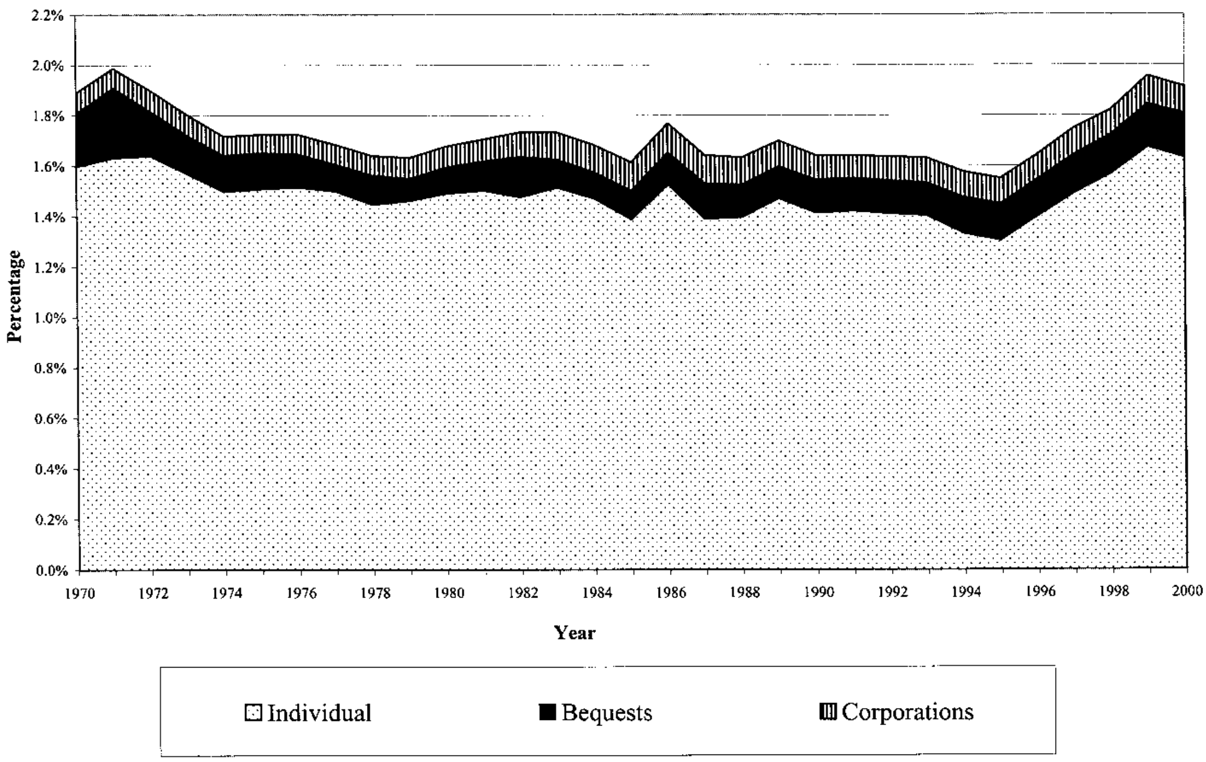


FIGURE 3.8. TRENDS IN GIVING BY SOURCE AS A PERCENTAGE OF GDP, 1970–2000
Sources: AAFRC Trust for Philanthropy 2001; U.S. Office of Management and Budget 2003, table 10.1.

of total giving, total assets, and gifts received for each of the major types of foundations that make grants, including independent, corporate, community, and operating foundations. In addition, there are more than 22,500 organizations classified as private foundations that do not make grants.[22]

Some reports on charitable activity misleadingly double count financial contributions. Foundations, for instance, generally make grants to public charities, while individuals make their contributions to foundations and public charities. Estimates of total giving by the public should not count both giving to foundations (approximately $27.6 billion in 2000) and the later giving of foundations to public charities and others (approximately $27.6 billion in 2000).

Many larger grant-making foundations, such as Gates, Ford, Rockefeller, Carnegie, and Kellogg, are well known to the public, but there were 56,582 grant-making foundations in 2000, approximately 75 percent more than in 1989. An estimated 5,228 new foundations formed in 2001, a record one-year increase (Lawrence, Atienza, and Merino 2003). Like public charities, these foundations come in all sizes and shapes. Some accept solicitations for grants and some do not. Some make thousands of grants and some make only one or two. Private independent (non-operating) foundations dominate the mix of foundations and many are vehicles for family giving. Community foundations, such as the New York Community Trust and the Boston Foundation, number only about 600, but they are growing rapidly and becoming a greater force. Total assets of foundations approximated $495.6 billion by 2000, but growth from 1999 had slowed to 8.4 percent, compared with double-digit growth enjoyed in previous years, a reflection of the decline in the stock market. By 2001 foundation assets decreased to $476.8 billion, the first decline since 1981. A further decline of almost 7 percent occurred in 2002. Half of the top fifty foundations experienced asset losses in 2000. Foundation assets began to increase with the economic expansion and stock market recovery after the 2001 recession (Lawrence, Atienza, and Barve 2005).

Assets and Net Worth

Total assets of reporting public charities have been on an upward trend throughout the 1990s with assets toward the end of that period growing faster than liabilities, undoubtedly due to a robust stock market throughout most of that decade (figure 3.9). Assets and liabilities include bills payable and receivable—items that often tend to grow or decline in tandem. Still, estimates for total assets are likely understated, because some assets, particularly real estate, are often counted at book value rather than market value.

Most of the assets and liabilities of the entire charitable sector reside in higher education and hospitals (figures 3.10 and 3.11). Higher education, which relies heavily on endowment gifts from its donors, has the greatest amount of net as-

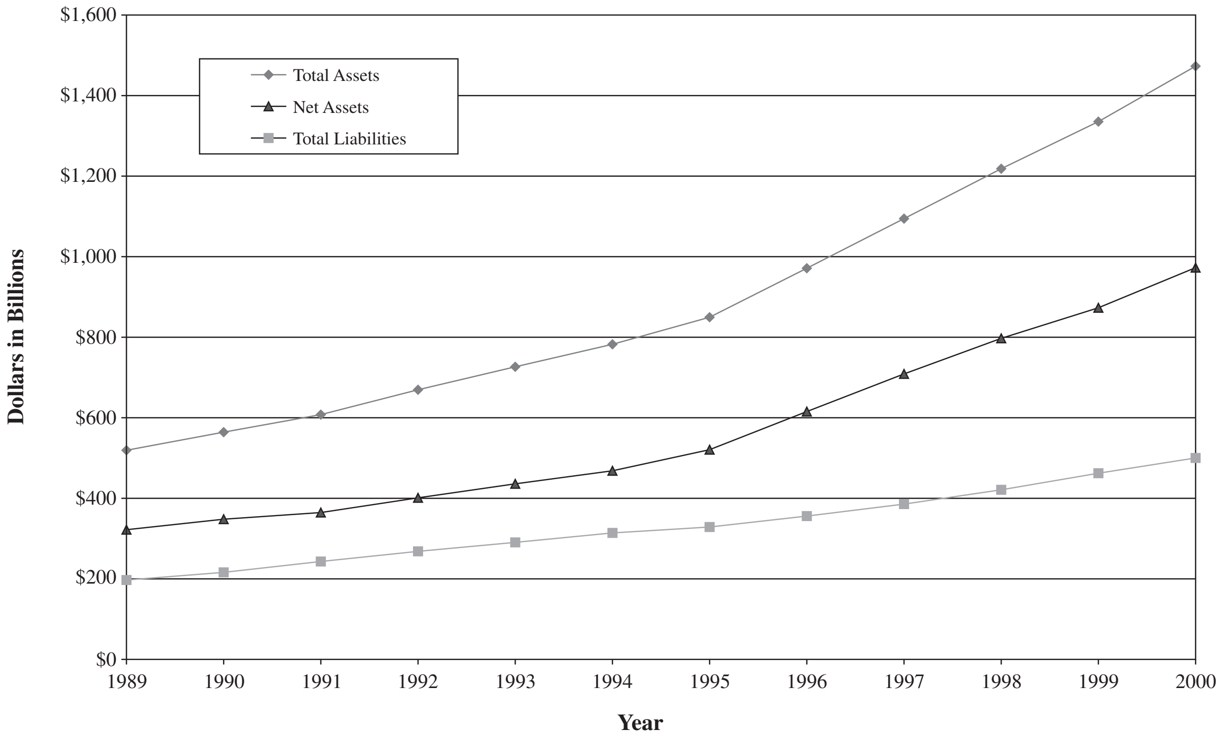


FIGURE 3.9. TRENDS IN ASSETS AND LIABILITIES OF REPORTING PUBLIC CHARITIES, CIRCA 1989–2000 (NOT ADJUSTED FOR INFLATION)

Note: Total assets include real estate, accounts and pledges receivable, grants receivable, inventories, and other assets. Net assets equal total assets minus total liabilities. Total liabilities include accounts and grants payable, deferred revenue, and other liabilities.
Source: The Urban Institute, NCCS Core Files, 1990–2001.

sets. Health care bills, both receivables and payables, contribute to that sector's greater amount of total assets. These two types of institutions also employ a large percentage of nonprofit workers.

Real estate is not the only asset that is often not valued at market prices. Nonprofit assets, such as art collections or zoo animals, receive special treatment and are not subject to requirements of capitalization and depreciation. Therefore, the net assets of organizations such as museums and zoos are, in some sense, understated. Contributions of art must be valued initially if the donor is to receive a tax deduction, but such assets and their appreciation are usually not reflected in asset value unless sold. Under the Tax Reform Act of 1969, artists who donate art to nonprofit organizations receive a deduction only for materials, not for the market value of the art (Bell 1987). Additionally, Financial Accounting Standards Board (FASB) rules, in effect since 1995, require nonprofits to report the value of pledges as income in the year the pledges are made, causing for some an overstatement of income due to pledges never realized.

THE NONPROFIT SECTOR AND THE U.S. ECONOMY

Using a variety of sources, the Bureau of Economic Analysis (BEA; 2001) estimated that the nonprofit sector produced 4.2 percent of GDP in 2000—up from 3.1 percent in 1970 (figure 3.12).[23] By contrast, the government sector produced 10.8 percent in 2000 (down from 13.9 percent in 1970), while the business sector produced 84.9 percent of all goods and services.

Obviously, if one piece of the national pie grows as a share of the total, at least one other piece's share must shrink. In the 1970s, the government's share shrank. But before concluding simply that these changes in national income indicate a decline in the influence of the government sector and an expansion of the nonprofit sector, one must look behind the numbers. From 1970 to 2000, the government sector's participation in the *direct* production of output, primarily in the defense budget, certainly did decline. Increasingly, however, government has taken its revenues and shifted toward making transfers for others to spend (as in social security payments) or contracting out for services. Indeed, declines in government employment for producing goods and services nearly match increases in nonprofit employment, just as declines in government output (mainly from its employees) nearly match increases in nonprofit output (mainly from *its* employees; Steuerle and Hodgkinson 1999). Contracting is examined in more depth in the chapter by Grønbjerg and Smith in this volume; we simply emphasize that the shift in national income and growth in nonprofit

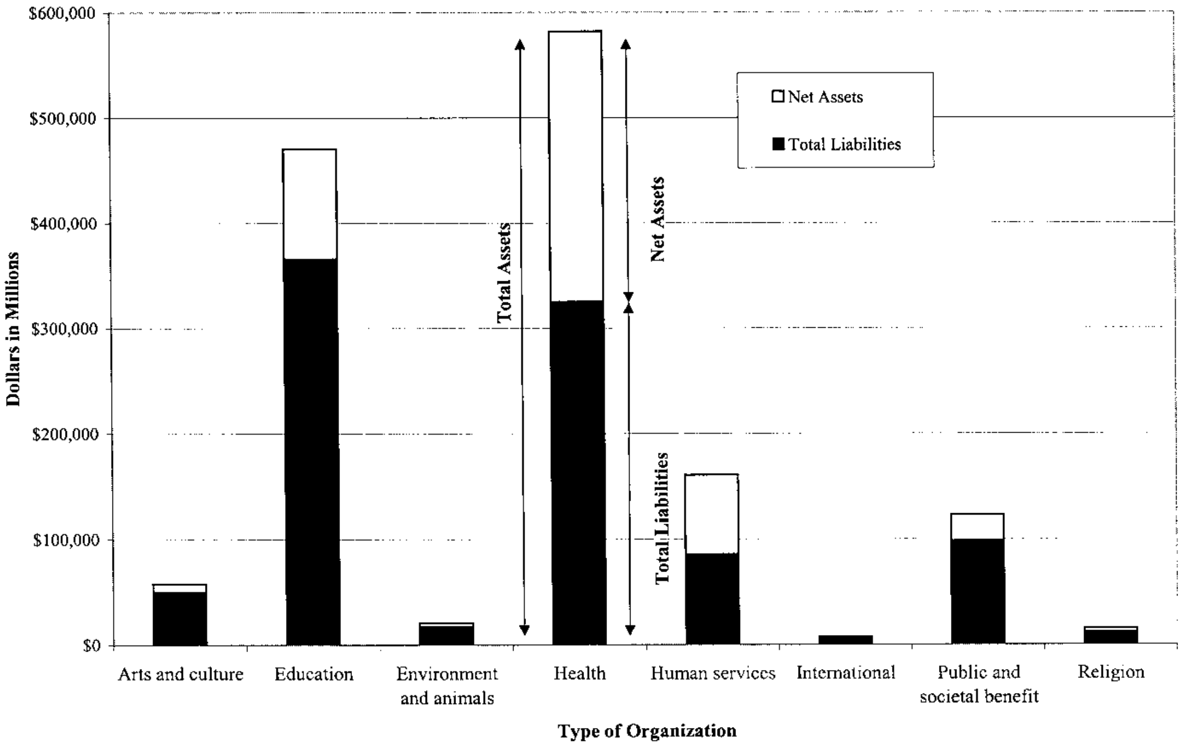


FIGURE 3.10. TOTAL LIABILITIES AND NET ASSETS OF REPORTING PUBLIC CHARITIES BY ORGANIZATIONAL CATEGORY, 2000
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

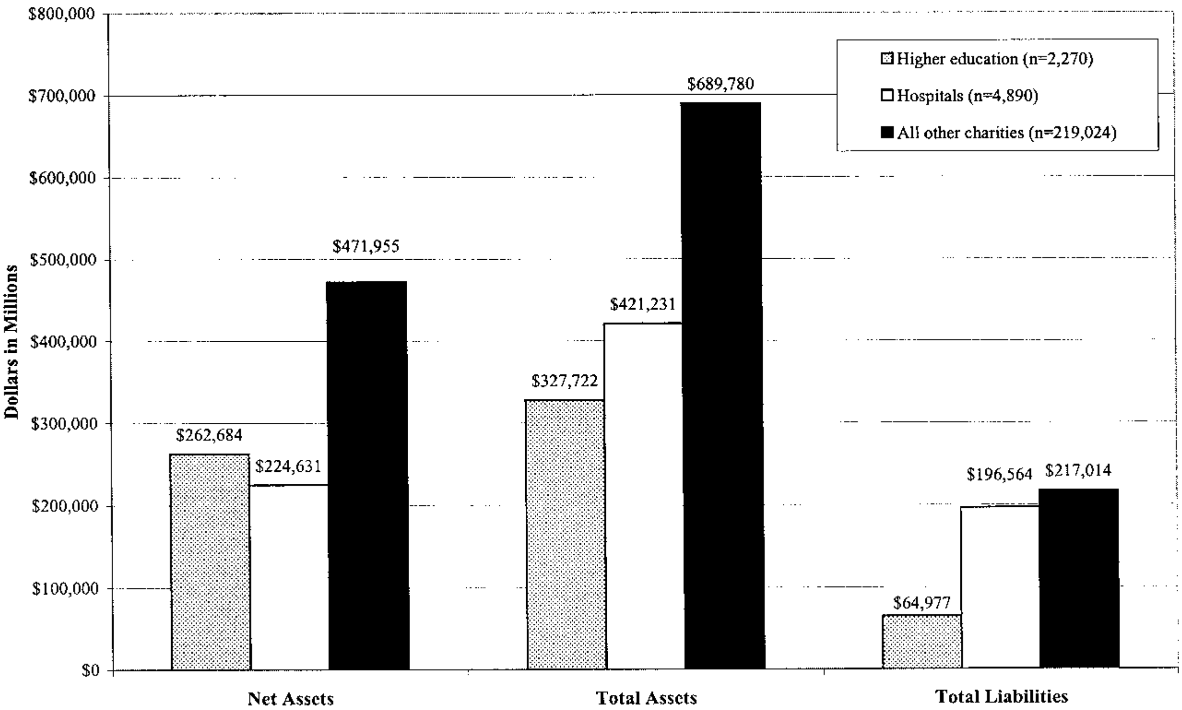


FIGURE 3.11. NET ASSETS, TOTAL LIABILITIES, AND TOTAL ASSETS OF HOSPITALS, HIGHER EDUCATION, AND OTHER TYPES OF PUBLIC CHARITIES, 2000
Source: The Urban Institute, NCCS/GuideStar National Nonprofit Database, 2000.

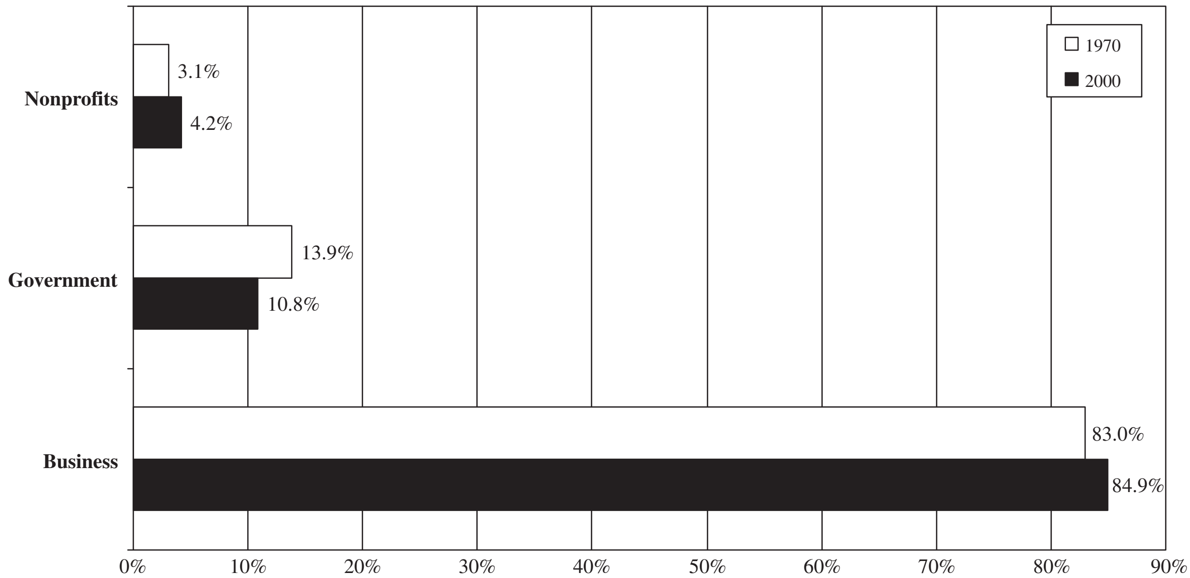


FIGURE 3.12. NATIONAL INCOME BY SECTOR AS A PERCENTAGE OF GDP
Note: BEA defines the nonprofit sector as comprising all tax-exempt entities, and values each on the basis of paid compensation only. Others use alternative methods to calculate the nonprofit sector's share of national income. For example, our estimate includes paid compensation and volunteer time to calculate a national income in 1998 of $7.3 trillion, of which 6.7 percent is attributable to nonprofit organizations (See Independent Sector 2001).
Source: BEA 2001.

output largely reflect the government's contracting out for more services. The primary examples are payments to health-care providers through Medicare and Medicaid.

Government also provides a variety of subsidies that bolster the nonprofit sector. For example, special tax breaks for the purchase of health insurance likely led to an increase in the demand for medical services traditionally provided by nonprofits. At the same time, increased government subsidies or voucher payments, especially through Medicare and Medicaid, have enticed business to compete for these services. The increasing proportion of for-profit health providers like home health care agencies is one example (see Schlesinger and Gray, this volume).[24]

More generally, an increasing share of the national economy involves the types of goods and services that *can* and often do flow through nonprofit providers. For instance, demand for health and information services is growing much faster than demand for steel and cars (Cordes, Steuerle, and Twombly 2004). This remains true whether demand is generated by individuals directly, or through government.

Transfers versus Output

Individuals' contributions of tax dollars to finance government social welfare expenditures (around 20 percent of personal income) are almost ten times larger than individuals' direct charitable contributions (about 2 percent of personal income) (Steuerle and Hodgkinson 1999).[25] Taxation, of course, is compulsory, while contributions are voluntary (Havens, O'Herlihy, and Schervish, this volume).

Regardless of the reason, government dominates spending, particularly through its retirement and health programs such as Social Security, Medicare, and Medicaid. While charitable contributions have remained fairly constant as a share of personal income over the past three decades, government's social welfare function increased significantly in the 1960s and early 1970s before reaching a more constant level of about one-fifth of personal income.

The nonprofit sector's growth as a share of the national economy shown in figure 3.12 corresponds roughly to the increase in operating expenses of the nonprofit sector shown in figure 3.13. The relative consistency in the level of giving as a percentage of personal income demonstrates that the growth in national output was financed not through increased charitable giving but through fees received for services that the nonprofit sector rendered.

What Is Not Measured (or Not Measured Well) in National Income Data

National income estimates of nonprofit activity do not count volunteer labor or work at below-market wages. If we count volunteers, estimates suggest that the output of the nonprofit sector as a percentage of GDP would be about two points higher. Including this estimated value of volunteer labor, nonprofit sector output was 5.5 percent in 1977 and rose to 6.7 percent in 1998.[26] In an attempt to quantify voluntary labor contributions, Virginia Hodgkinson and Murray Weitzman developed a methodology based on survey data of volunteering activities. They have reported estimates of vol-

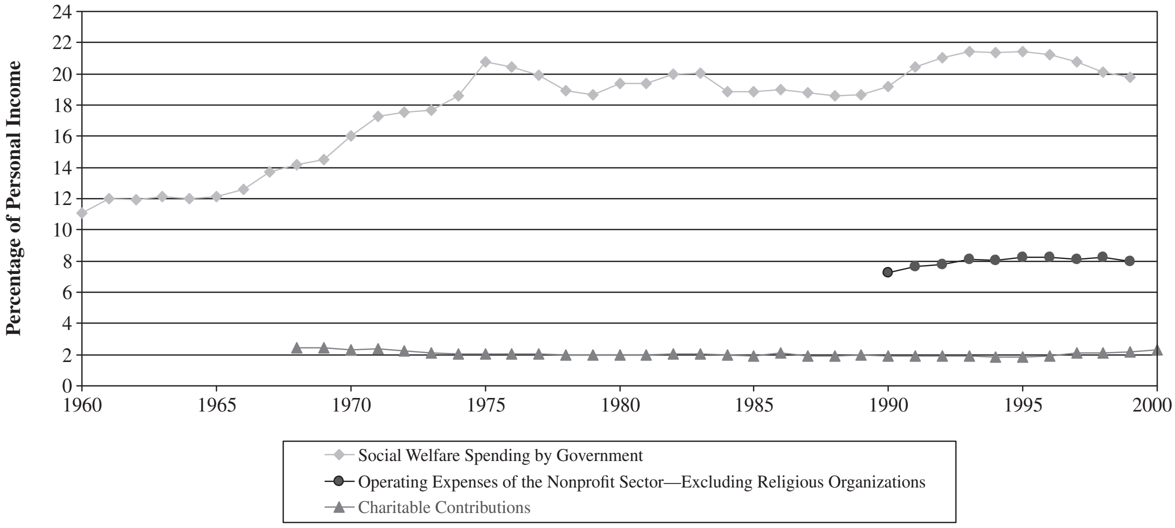


FIGURE 3.13. GOVERNMENT SOCIAL WELFARE SPENDING AND CHARITABLE CONTRIBUTIONS, 1960–1999
Note: Includes federal, state, and local social welfare spending.
Sources: BEA 2001; Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin,* 2000; AAFRC Trust for Philanthropy 2001; IRS Statistics of Income Exempt Organizations Sample Files, 1990–1999.

unteer output in the *Nonprofit Almanac,* developed by staff at Independent Sector (Hodgkinson, Weitzman, et al., various editions).[27]

A more complicated issue is what value to place on those individuals in the nonprofit sector who might be working at either above- or below-market wages. Some individuals might be paid more when they work for nonprofits if they can capture some of the charitable contribution rather than transferring it to other beneficiaries. Others may work for less, contributing the equivalent of volunteer labor. Yet, again, if the value of their output is lower by the difference between what they are paid and what they could earn elsewhere, then lower pay may indeed reflect lower productivity. For example, the pay differential could be absorbed in more amenities and benefits on the job or a slower work pace. Many individuals in nonprofit organizations, however, work very hard, so a general rule is hard to apply. Within those parts of the sector that deal with issues of poverty or need, in particular, it is generally thought that many employees accept a salary below market wages and are happy to contribute in this way.

What does the empirical evidence say? Weisbrod (1983) found that public interest nonprofit lawyers earned roughly 20 percent less than comparable attorneys in the corporate sector. Others have also reported significantly lower pay in the nonprofit sector compared with the for-profit sector (Johnston and Rudney 1987; Preston 1989). In a study of nonprofit employment in Louisiana, Sarah Dewees and Lester Salamon (2001) report that the weekly wages of nonprofit workers average $482 compared with $522 for business and $598 for government workers.

Yet, in some industries nonprofit wages are higher than comparable for-profit wages. In Louisiana, nonprofit employees engaged in education received weekly wages of $610 compared with $500 for workers in for-profit industries (Dewees and Salamon 2001). Laura Leete (2001) has conducted one of the most comprehensive examinations of nonprofit wage differentials and finds nonprofit pay higher in areas like hospitals and higher education, but lower in areas like primary and secondary education and job training.[28] (See Leete, this volume, for a comprehensive discussion.)

Net Worth of Nonprofit Organizations

The net worth of the nonprofit sector is also significant—about 6 percent ($1.6 trillion) of the total net worth of the household and nonprofit sectors combined (figure 3.14). Note that to avoid double counting, the business sector is not reported separately, since many households own stock or a business as part of their asset portfolios. The nonprofit net worth estimate reported here is fairly accurate when it comes to the major holders of assets—such as foundations, educational institutions, and hospitals—but weak when it comes to churches, which are not required to report to the government.

One might argue that assets held within the nonprofit sector, and enhanced by favorable tax treatment, are more “valuable” than similar assets held within the household sector. Typically, the income is not taxed for the nonprofit holder.[29] Also, nonprofits are usually exempt from paying most property taxes on their real estate assets. Accordingly, one could argue that assets implicitly have a higher after-tax value when held by the nonprofit sector than when held by taxable individuals. This is one reason why the earlier in life an individual makes gifts to a charity, the greater the amount (usually) that is transferred to the charity over time. Still, the is-

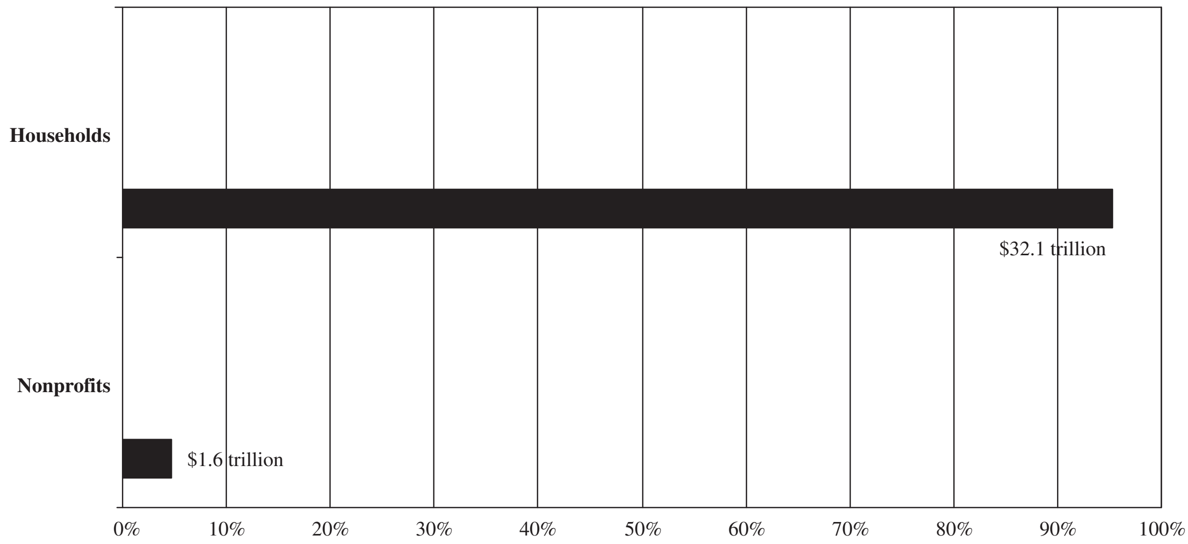


FIGURE 3.14. NET WORTH OF U.S. HOUSEHOLDS AND NONPROFITS IN 2000
Note: The Federal Reserve defines the nonprofit sector to include 501(c)(3) and 501(c)(4) through 501(c)(9) organizations, private foundations, and charitable trusts. This definition does not include religious organizations or those with less than $25,000 in gross annual receipts.
Sources: Board of Governors of the Federal Reserve 2000; Center on Nonprofits and Philanthropy, the Urban Institute, 2001.

sue is complicated, as when the tax advantage subsidizes inefficiency or when the capital (e.g., a church building) is less salable in an open market. Also, taxpayers in aggregate pay the cost of the subsidy in the sense that the revenue transfer to charities means less revenues available for other government expenditures.

Research on the scope and dimensions of the nonprofit sector, however defined, has come a long way since the Filer Commission. While all data must be interpreted with caution, those on the nonprofit sector are becoming more robust and accessible.[30] The available data document the significant and growing nonprofit sector and the increasing economic activity generated by nonprofit organizations. Resources in hospitals and higher education institutions are responsible for much of the economic activity in the sector. That said, aggregate economic data do not reveal the many vital roles nonprofits play in communities. Through nonprofit associations, people connect to one another and to their communities. People give, volunteer, and lend their support to nonprofits that provide formal and informal education and youth development, promote artistic and cultural development, care for the sick, feed and house the poor, and represent interests and values in the broader society and polity. Much of this work is done with minimal resources and a great deal of volunteer and underpaid labor.

The composite picture of the nonprofit sector shows color, variation, and dynamic activity. While not all nonprofits operate in the public interest, most advance some worthwhile purpose beyond the personal needs of founders and the contributors of time and money. That this sector flourishes in the U.S. economy reflects well upon the aspirations and dedication of its citizens. That the sector is as large as it is means that the nation is constantly enriched with new and different sources of ideas and information. Activities of this sector often fill niches that simply cannot be met purely by a business sector devoted to profits or a government sector relying upon compulsory taxation and majority rule to achieve its public ends. Since the nonprofit sector contains so many organizations and is so varied, it gives society a texture and depth that could not be achieved in any other way. Diverse purposes and, at times, inadequate accountability certainly result in some duplication and efficiency costs. Nonetheless, if diversity is a sign of health—and we believe it is—the nonprofit sector demonstrates the robust health of our democratic society.

ACKNOWLEDGMENTS

The authors are grateful for the assistance of Perri Gottlieb, Adam Carasso, Eric Twombly, Cory Fleming, Pho Palmer, Linda Lampkin, Tom Pollak, and Dan Oran in the preparation of this chapter.

NOTES

1. Religious congregations and small nonprofits with less than $5,000 in annual gross receipts are not required to register with the IRS. Organizations with more than $25,000 in annual gross receipts must report financial and program information to the IRS annually on Form 990. All private foundations must report to the IRS annually on Form 990PF.

2. See Stevenson et al. (1997) for a description of the 26 major categories and 645 subgroups. The National Taxonomy of Exempt Entities—Core Codes (NTEE-CC), developed in 1998, includes defini-

tions of the classifications. Updated manuals are posted at www.nccs.urban.org.

3. Some tax-exempt organizations, such as credit unions and some cooperatives, are profit-making for their members. That is, they are not nonprofit.

4. Most state governments monitor nonprofit activities through state charity offices or the state attorney general's office.

5. Estimate projected from *Nonprofit Almanac* (Hodgkinson and Weitzman 1996).

6. Religious congregations are not required to register with the IRS, but NCCS researchers found that significant numbers do. In 2000, approximately 84,000 voluntarily registered with the IRS; most do not file Forms 990 (NCCS analysis of IRS Business Master File, July 2005).

7. Some financial data on religious congregations and their affiliated organizations are available from the National Council of Churches of Christ in the United States of America (*Yearbook of American and Canadian Churches,* 1916–2001). Various surveys have also been conducted—for example, *From Belief to Commitment: The Community Service Activities of Religious Congregations in the United States* (Hodgkinson and Weitzman 1993) and "The National Congregations Study" (Chaves et al. 1999), a comprehensive survey of 1,236 religious congregations nationwide. These studies are beginning to provide better estimates of the numbers and finances of congregations, but no one data source provides a complete picture.

8. Includes approximately 84,000 congregations. See note 5.

9. Table 3.3 is compiled by the Foundation Center and includes only foundations that make grants. Private foundations are created by individuals, families, or corporations, and they have a more stringent regulatory framework than public charities. Donors usually give a sum of money to create an endowment that generates interest used to make grants and operate programs for charitable purposes. Community foundations hold the charitable gifts of many individuals and use them to benefit specific communities. Community foundations are public charities and therefore they do not fall under the private foundation regulations. Operating foundations are private foundations that operate a charitable program such as a residential facility or a research institute, although some may make grants. The data in table 3.2 include all charities classified as private foundations, whether they make grants or not.

10. The NCCS is the national repository of data on nonprofit organizations. Formerly an Independent Sector program, in 1996 the NCCS relocated to the Urban Institute. The NCCS receives IRS files on nonprofits and creates research databases that are accessible to researchers electronically over the Internet and on CD-ROM (www.nccs.urban.org).

11. See Reid (1999) for a discussion of the regulation of nonprofit political and electoral activities.

12. In such an arrangement, the 501(c)(3) organization accepts charitable contributions primarily for research and related public education efforts, while the 501(c)(4) group actively conducts legislative lobbying. Some 501(c)(4) organizations, like the Sierra Club, are also affiliated with political action committees, which are permitted to engage in electoral campaigns (Boris and Krehely 2002).

13. Grønbjerg's analyses so far consider all nonprofits and do not break out public charities.

14. The Web site Quality 990 (www.qual990.org), a collaborative project, promotes a number of projects and activities to improve the accuracy of nonprofit reporting on Form 990; however, some observers suggest that increased visibility of Form 990 will result in less accurate reporting as organizations try to present their finances in the most favorable light.

15. Electronic filing of Form 990 is being pilot tested by the NCCS to facilitate implementation by the IRS.

16. For example, approximately 58 percent of public charities (488,000 of 840,000) listed in the 2003 Business Master File (2001 data) report less than $25,000 in gross receipts.

17. Spatial analyses are in the early stages and still must surmount problems of accounting for organizational headquarters and service locations or mobile services. Accounting for embedded organizations is also problematic. For example, university-based theaters or child care centers and small nonprofits housed in church basements are difficult to identify and map.

18. Note also that this calculation is for the year 2000, when public returns from stock market investment and interest rates were higher than in at least the succeeding couple of years.

19. We have excluded supporting organizations and foundations to avoid double counting.

20. Measures of productivity and outcomes are beyond the scope of this chapter, but there is a growing demand for reliable measures of efficiency and effectiveness, and increased experimentation with concepts like cost-benefit analysis, social return on investment, and others.

21. Individual giving includes giving to private and public foundations but does not include foundation grants.

22. The private foundation category is a residual category under the tax code; tax-exempt organizations that cannot demonstrate sufficient public support are classified as private foundations, a less favorable tax status. Community foundations are classified as public charities. There are, in addition, some private foundations that operate facilities and make no grants.

23. The BEA estimates the nonprofit sector portion of GDP based on compensation only and currently does not consider consumption of fixed capital.

24. In one study of 5,768 hospitals by Needleman, Chollet, and Lamphere (1997), a total of 175 hospitals (6 percent) reported a change in their ownership status between 1980 and 1990. Of these, 110 (63 percent) converted to for-profit status. Gray and Schlesinger (2002) show major growth in the numbers of for-profit rehabilitation hospitals but a decline in the number of for-profit acute care hospitals between the mid-1980s and the late 1990s.

25. Although government social welfare payments are broadly defined, the disparity is even greater because a significant proportion of charitable contributions is given for sacramental religious purposes.

26. Weitzman et al. (2002) add the value of unpaid family business workers to overall employment. They calculate the wage value of unpaid family workers as one-half the average annual earnings of the self-employed multiplied by the number of unpaid family workers estimated by the U.S. Census Bureau. This calculation, in effect, compensates for volunteers to family businesses, in order to create a more complete base of employment for the business sector. However, business "volunteers" should not, as in the case of the nonprofit sector, add to output since that is already reflected in profits which would be lower by the amount of wages, if paid, to the "volunteers."

27. *The New Nonprofit Almanac in Brief: Facts and Figures on the Independent Sector* (Independent Sector 2001) and *The New Nonprofit Almanac and Desk Reference* (Weitzman et al. 2002). Volunteer time is calculated by taking the average hourly wage of nonagricultural employees and increasing it by 12 percent to estimate fringe benefits in 1998. Since individuals volunteer for government and business as well as for nonprofits, this estimate is calculated by first adding volunteer input to the national income and then calculating the proportion that applies to the nonprofit sector based on surveys conducted on behalf of Independent Sector. The 1998 estimate is based on volunteering data indicating that 109.4 million Americans volunteered 19.9 million hours in that year. The calculated value of volunteer time to formal organizations, using the average nonagricultural wage, is approximately $225.9 billion (Independent Sector 2001). See also Hodgkinson and Weitzman, *Giving and Volunteering in the United States* (1999, 2001).

28. See table 6 in Leete (2001).

29. In a technical sense, the issue is whether the future income from assets of a nonprofit should be discounted at the private after-tax interest rate. The stream of income from an asset is higher for the holder of an asset (but not for society) when some of it is not siphoned off to government. Of course, in the case of corporate stock, the underlying corporations still pay corporate tax on their income, so there is no corporate tax advantage, only an individual tax advantage, in shifting the ownership of corporate stock to charities.

30. Further progress will depend to some extent on government taking greater responsibility for developing and maintaining the data sets on nonprofits and doing a better job of including nonprofit organizations as a sector when employment data are gathered and national income is estimated.

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APPENDIX: IRS NONPROFIT DATA SOURCES

IRS Business Master File

The IRS Business Master File (BMF) is a cumulative list of all active nonprofit organizations that have registered with the IRS and obtained recognition of their tax-exempt status. The BMF is updated monthly and available from both the IRS and NCCS. It contains identifying information such as name, address, and exempt purpose, and two financial variables, total assets and gross receipts. As the most comprehensive list of nonprofit organizations available, it is often used to determine if an organization is eligible for tax-deductible contributions. Much of the information is from the date that the organization received its tax exemption. Every few years it is further updated following a process that includes mailing postcards to organizations to verify that they still exist. The BMF lists many inactive organizations for years after they cease operation. The BMF is useful for analysis of the organizational makeup of the nonprofit sector. The financial variables are of limited utility.

IRS Statistics of Income Sample File

The Statistics of Income (SOI) Division of the IRS annually creates data sets of 501(c) organizations filing in a given calendar year; the data are available from both the IRS and NCCS. The SOI Sample File for 501(c)(3) entities includes 14,000 organizations. It includes those with \$30 million or more in assets and over a third of all organizations with \$10 million to \$30 million in assets, plus a random sample of

smaller organizations stratified and weighted by asset level. Another data set includes about 10,000 organizations that are tax exempt under section 501(c)(4) through (9). Information from Form 990-PF, filed by all private foundations, is used to create a foundation data set. SOI files include over 300 financial and programmatic variables from Form 990. These are high-quality research data sets that are valuable for economic analyses but not for geographic or subsector analyses.

NCCS Core Files

NCCS annually creates a research Core File by combining the descriptive information (name and address plus various codes) from the BMF and financial variables from the Return Transaction File. The Return Transaction File is an administrative database created by the IRS from Forms 990 filed by nonprofit organizations. NCCS conducts standardized checks on the financial information, flagging mistakes, and correcting them where possible. Data are cross-checked with the SOI Sample data where possible. NCCS enhances the file by adding the NTEE classification codes of the organizations and by classifying any organizations that have not received NTEE codes. Checks for missing organizations and duplicates are conducted. NCCS adds a zip code–to–county cross-check that assigns Federal Information Processing Standards (FIPS) codes for state and county jurisdictions to aid in geographic analysis and calculates several financial variables including gross receipts, total revenue, expenses, and assets.

The Urban Institute, NCCS/GuideStar National Nonprofit Database

NCCS and GuideStar, in collaboration with the IRS, have scanned Forms 990 and digitized the data to create an electronic database of more than 400 items. Variables cover sources of revenues, areas of expenses, types of assets, salaries, and descriptions of programs and expenses. Data for the years 1998, 1999, and 2000 are available to researchers. The NCCS research version of the database (NCCS/GuideStar National Nonprofit Database) includes the NTEE organizational classifications and is checked for omissions, duplicates, amended returns, and other problems.